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Extent of income inequality in Australia

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Community Affairs References Committee - 19/09/2014 - Extent of income inequality in Australia

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[10:59]

CHAIR: Welcome. I understand information on parliamentary privilege and the protection of witnesses and evidence has been provided to you all. Thank you all for coming. It is very much appreciated. I invite whomever wants to make an opening statement to do so. We will then ask a series of questions.

Prof. Jacobs **:** I would, first of all, congratulate the Senate for choosing this area to do an inquiry into. It is absolutely fundamentally important that issues around inequality are discussed in Australia. My own personal view is that this been an issue which has not been properly addressed by politicians. I think there has been a failure to look at the huge implications of inequality. So this is a very good opportunity to put this on the public agenda and make clear what the negative implications of increasing social inequality are.

If I were going to describe my perceptions of Australian politics over the last 20 or 30 years, I would say that it has been following one particular narrative. That particular narrative is quite simple. It is that, in order for Australia to be competitive, it has to have a low-wage economy. A low-wage economy is seen as fundamentally important in order to attract investment and jobs. The problem with that, in my view, is that it is a race to the bottom. Basically, I cannot see how Australia is ever going to be able to compete with China and other countries in Asia to arrive at a point where our labour costs are so low that we are going to attract investment from abroad in that way.

The second point I would make is that the impact of pursuing a policy of suppressing wages is absolutely damaging for the whole of Australian society. It creates enormous social costs in terms of people's self-belief and self-value. It causes all sorts of issues around mental health and poor housing. It actually leads to outcomes which none of us want. So I think these are the issues which need to be addressed.

I have one final point in terms of pursuing the agenda of a low-wage economy. It suppresses demand. If we look at a state like Tasmania, it is very, very clear to me that low wages is the real problem there. There is not sufficient aggregate demand to stimulate the economy, so suppressing wages has been a fundamental disadvantage to a state like Tasmania. All the research, even by people like the IMF, has recognised that that particular policy objective is a

very flawed one. The other really important point on this is that it does not lead to the outcomes we all want; it just leads, as I said, to a very divided society.

But there are huge things the Australian government could do, and they are very simple. One of them is the in the area of taxation. The taxation system here is basically predicated on making the wealthy wealthier, and I think that money is coming from disadvantaged people. Let me make clear what I am saying. My area of expertise is housing policy. I put in a submission to the Senate inquiry on housing affordability. The totality of housing expenditure in Australia is $53 billion a year. Most of that is imputed tax subsidies, which basically are for homeowners, who do not pay capital gains when they sell their home, and rental investors, who through negative gearing and other imputed tax subsidies are able to offset their profits and put them down as costs—well, they are able to arrive at an outcome which basically offsets their profits. I think $45 billion goes to those groups; $6 billion goes to people in the private rental market; and the remainder goes into public housing. So most of the housing expenditure in Australia benefits homeowners and rental investors.

What I find most disturbing about what is happening is that we are actually trashing all the things which we have already. For example, public housing is now seen as a failed tenure, and we should be moving out of that. The really worrying thing I keep hearing about at the moment is that the government seems to be assuming that the private rental market is the way to go in terms of housing investment, but the private rental market is not really a private rental market. It is mainly taxpayers' money which goes into Commonwealth rental assistance, and that actually then benefits private landlords. So we have a reverse form of welfarism taking place in Australia at the moment. We have a situation where the government taxes, which are drawn from everyone, are paid to low-income tenants through Commonwealth rental assistance and then end up in the pockets of private investors and landlords.

I will finish at this final point. If one looks at Australian homeownership, I think at the moment the people who are buying properties in Australia who are first home owners are only about 12 per cent. The rest are homeowners and rental investors. So housing is actually stretching inequality even more and making it even more difficult for people on low incomes to live in the properties which are commensurate with their needs.

Most of what is happening in my area, which is housing policy, is a reverse form of welfarism. We are actually moving into a situation in Australia where we are shifting money from the poor to the rich, and it seems to be the absolute opposite of what most people think is happening. There is a really important public conversation which needs to take place around this area, so I am delighted to have made that opening statement. Thank you.

Prof. Habibis **:** I will follow up a couple of points from what Professor Jacobs has just said. I think that a couple of the follow-on points from his argument are that there is a need to open up conversation about tax reform and to shift from progressive tax. We need to consider how we can bring the electorate along to support measures that change the tax regime in favour of addressing some of the structural problems that create and deepen poverty and inequality.

I think the other point is that the measures, the policy levers, to address poverty are often those that stigmatise the already stigmatised. They are blaming the poor for their poverty, often with very punitive measures, rather than looking at the structural causes. If we look at the budget measures such as punishing young people by cutting off their income if they are not in education or employment, there is a focus on the individuals who may be struggling to find work, rather than looking more broadly at the structural causes behind that.

Dr Blacklow **:** If I could make a comment on from that, I think that most public policy for the last 20 years has only contributed to inequality. Really, the raising of the tax-free threshold is the only thing I can think of that has been a positive step that would have assisted that. I might be missing something, but generally, in broad terms, since the late 1980s most of the policy moves have been to transfer from the poor to the rich with superannuation benefits and negative gearing. Then we have the current measures in this budget. Rather than just handing out money to the higher end, we are actually reducing money down at the lower end. Some of the general movements in inequality can be attributed to a large extent to the nonindexation of welfare payments to the CPI or something even more appropriate.

I have been doing a bit of researching on the cost of living for Tasmanians, and it does vary for different groups. For example, more recently, out of housing tenure—Keith reminded me of this—it has been mortgagees that have had very low costs of living lately because the interest rates have been so low. But renters have not necessarily enjoyed that, so we are finding that renters are suffering much higher costs of living than people with mortgages. So there is quite a bit of variation in the cost of living, and not indexing welfare payments or unemployment benefits and parenting payments just keeps driving that wedge apart.

Mr Churchill **:** Dr Blacklow was talking about the last 20 years. In terms of my research, which is about young people in generations, I am thinking about the next 20 years. I am thinking about the policies that the budget has announced in terms of changes to Newstart and youth allowance and how students will pay for their higher education costs. Those are the things that I am particularly interested in. I think those are some significant issues that the government perhaps needs to think about in terms of the budget but also that this committee should consider because I think it will have a significant impact upon income inequality in the future.

On the changes to Newstart, I am sure many people have given you the figures before, but $96 is the estimated cost that people between the ages of 18 and 30 will lose as a result of the changes. So these policy measures that have been proposed have an impact upon the future lives of young Australians. And they are our future workforce, so we need to make sure that we do the best to adequately equip them with the skills to fill the gaps in the labour market once the baby boomers retire. We need to make sure that they are properly skilled, properly educated.

We also need to make sure that we do not put them at risk. I do not need to go through this,

but unemployment, or sustained periods on unemployment benefits, does have a significant impact on health and wellbeing. It entrenches poverty and disadvantage. A way of tackling income inequality, I think, is by looking at some of these policy measures like youth allowance and Newstart changes in terms of young Australians.

CHAIR: Thank you.

Dr Blacklow **:** Just thinking about that: I feel a little bit biased being from an education institution, but education generally is probably one of the key ways to address inequality. I think most people agree that we want equality of opportunity. Of course, I have to have a debate with a slew of my colleagues in economics about what the market failures in achieving this are. I think there are several that need to be addressed.

I suppose the most significant one is just that some parents have poor resources, and they cannot educate their child to the same level as everyone else. To me, in an ideal world, we want children all to be about equal at about 18 years of age, ready to launch off in whichever direction they want to go. So there are market failures in that some poor parents just cannot afford more, and I think that is where the government should be stepping in to boost up that level of education.

There are other market failures, and we suffer from this especially in Tasmania, with poor parental attitudes towards education. They will not invest at the optimal level, because they do not believe in the benefits. So, again, I believe that is where there is cause for government intervention to address that issue.

CHAIR: What do you mean? Sorry to jump in, but can you give us some specifics? If we were recommending, as a committee, on investment in education—and I realise we have a whole lot of different state and territory systems—what would the main things be? I read some of the papers specifically relating to Tasmania, and one of the issues was that this has been recognised as an issue in Tasmania, but successive governments have failed to adequately address it. So what should we be doing?

Prof. Jacobs **:** Can I say very, very quickly: if the Australian government want to save money, why not make private educators actually pay for the full costs of schooling? At the moment, we all know that private schools are mainly the home of wealthy households, and they get a generous tax charitable status and tax subsidies from governments. But also—which is often missing from the discussion—all the education of teachers is going through the public sphere, particularly universities, but none of those costs are actually absorbed by the private schools.

What I would like to see is a level playing field. I will make it very, very clear. If you want to address inequality in education, one of the ways you can do it is to ensure that the public school system is as adequately resourced as the private schools. I think then many of the people who feel that they have to send their children to private schools would probably reconsider. It is one of the major ways you can address inequality—removing the privileges and subsidies to private education. All the sociological research shows that the networks which are established at private schools are often replicated in business among business elites. In successful countries like Norway and Sweden, those kinds of networks do not exist through the private school system. There is an enormous difference in the culture and politics of those societies. In Australia it is dominated by elites, in my view, and often that starts from the school system.

Dr Blacklow **:** In general I would pretty well agree with Keith there, but I would just point out that I have done some research on education policy. There can be some problems in that, if you take the subsidy away from the private, you will get everyone switching back to the public. Of course that puts a big load on the public. It was a very crude, simple thing I set up, and I found that it almost looks like this funny half-fudged system, half-subsidising private sector schooling while also funding public. It does seem to almost work, but I tried a few simple options, and it seemed to cost more in the local system. I would favour investing in the public schools especially and following the Gonski reforms.

Senator BILYK: Gonski was about fairer funding, wasn't it?

Dr Blacklow **:** If you follow through that—

Senator BILYK: Originally there was a unity ticket, and now it seems to have been watered down somewhat. Later on I would be interested in comments. Would anybody like to make a comment?

Prof. Jacobs **:** The Gonski reforms were definitely a step in the right direction as far as I am concerned. I think even people on that committee who were very sceptical were swayed by the arguments in favour of greater investment in public education. I was delighted to see that the Liberal Party in Tasmania were willing to commit themselves to Gonski reforms.

Dr Blacklow **:** Just while we are talking about education: I did a really quick, simple analysis, and two-thirds of education performance can be explained by socioeconomic background. It was really crude—I just got the SEIFA index and regressed it on the scores, and bang! A lot of Tasmania's poor education performance, while it is not an excuse, can be explained to a large extent by the lower socioeconomic background. If you compare Tasmania with other similar areas, if you compare it with South Australia or Queensland, you will get similar sorts of answers on education performance. It is a lot about parental backgrounds, parental incomes and not being able to fund students to the same extent.

Prof. Habibis **:** I will shift the topic, still on education, away from the public-private school funding mix to issues of rural communities and the impact they have on education. Tasmania's apparent retention rate to year 12 is around 64 per cent compared with around 76 per cent. Although that is undoubtedly a reflection of the low SES of so much of the Tasmanian population, it is also an effect of rurality. For one of the causes of that, I will refer to research being undertaken by my colleague Merete Schmidt. She has done qualitative research on a small rural community in Tasmania. One of her key findings is the impact of place, the positive social capital attached to place and the impact that has on people's willingness to move.

Because they are from poorer communities, yet they have very strong ties to their communities, it makes them very reluctant to move out of those communities because they do not have the experience of moving out. So, rather than going to larger population centres to continue their education, they prefer to stay home, even though they understand the value of education because that message is very strongly pushed within the school system.

Supportive measures are needed that will build networks and links between people in these more remote rural communities and larger metropolitan centres. Mentoring systems or other measures are needed to encourage people to become familiar with metropolitan environments so that they are willing to leave home and go to places where there are also opportunities.

But it is also very relevant to the proposed budgetary measures to cut payments to young people if they are not willing to seek employment or training. It will have a very big impact on those small communities. People may very well choose to stay in those communities—communities that are already doing it very hard because of the impact of de-industrialisation and the sorts of sinkholes these communities can represent in terms of poor opportunities and social problems associated with poverty. That is highly relevant in the Tasmanian context.

CHAIR: Is it possible for you to send us the references for that paper?

Prof. Habibis **:** She has not published yet, but I can certainly get her to provide some of her findings in summary form. I think it is really important. It is very clear finding of her research.

CHAIR: Is it just for Tasmania?

Prof. Habibis **:** It is just for Tasmania, yes.

CHAIR: Do you think it is applicable to other Australian rural communities?

Prof. Habibis **:** It is absolutely in keeping with other research. It is not a unique finding. The way she has framed it up, there are some unique aspects to it, but I think the impact of place on willingness to move the effect that has on education and the need to target those young people and to provide supportive measures that encourage them to build links are the key policy messages.

Senator CAROL BROWN: We have heard a bit about the Tasmanian context and about Tasmanians having perhaps to think about moving interstate for work opportunities—

Prof. Habibis **:** Interstate, exactly.

Senator CAROL BROWN: But it is not that simple. We cannot just get in the car and drive, so there are costs involved in that. Does your colleague go into that sort of work?

Prof. Habibis **:** I think that if we look at Lisa Denney's work—she is a demographer at the University of Tasmania: she talks about the extent to which people have this. I think policy does not pay enough attention to attachment to place. My research area is Aboriginal housing and the remote communities, and you can imagine the relevance of that in that area. We need to find supportive ways, not punitive ways, of getting people to be willing to move, and inducements rather than punishments if they do not move. The punitive measures do not take into account the psychology—not that I am a psychologist—of the way people may be willing to choose take the punishment rather than go somewhere they do not want to go.

Senator BILYK: And it is not just attachment to place; it is attachment to community and support—

Prof. Habibis **:** Exactly. The costs of moving out.

Senator CAROL BROWN: The costs are quite significant for Tasmania.

Mr Churchill **:** If you are somebody who lives on the north-west coast, if you are going to move to your next-nearest population centre, which might be Launceston, it is difficult, because there are no guarantees you are going to find a job. One in three between 18 and 30 in Burnie are currently unemployed, I think it is one in four in the greater Launceston area who are unemployed and it is one in five almost—

Senator BILYK: One in five overall.

Mr Churchill **:** Yes. For young Tasmanians, if they move and they want to move to a nearest population centre, there is no guarantee that they are actually going to find work. There is no immediate solution. I know Victoria and South Australia are also experiencing similar levels of youth unemployment, so even if they do make the jump to the mainland there is no guarantee that this issue is resolved. It is just one person less that the Tasmanian community has to worry about, which is a shame.

CHAIR: Just following up on that issue: when people do move and they cannot find work, is there an extra issue there where they are dislocated from their home community and do not have the relationship and attachment to people in the new community? What impact does that have on their ability to find work?

Prof. Habibis **:** I can talk about that in the Aboriginal context. It is very well established that when Aboriginal people move from remote communities into larger population centres they are very vulnerable to homelessness. There is to some extent a culturally-sanctioned norm of living in open spaces, but that comes with very high health costs if they do that for any length of time. They are also exposed to environments of access to drugs and alcohol, which can be very damaging for them. They may not have the money to return home, so providing ways to support people who move to large population centres is very important but it is also providing avenues for them to return home if they are not living in an appropriate environment in the city centres.

Senator BILYK: In some ways it is a simplistic approach, isn't it, to suggest that people can move and therefore can miraculously pick up work? It does not really take into account skills,

knowledge, background and things like that.

Dr Blacklow **:** It may address frictional unemployment, that tiny little bit of unemployment where skills just do not match the location, which is normally only 0.1 or 0.2 per cent.

Senator BILYK: Yes. It is a bit of a mistake to suggest that that is going to solve the ills—

Dr Blacklow **:** Unless we have one zone that has zero unemployment then it is a bit irrelevant I think.

Mr Churchill **:** Young people are often given the suggestion of fruit picking. If I spoke to any parent—I spoke to mine—I think I would certainly find that parents would not want their children, especially tertiary educated children, fruit picking. I do not think that is a viable policy solution, which is how it has been kicked around in Tasmania over the last couple of months, especially in light of the budget changes. That is the kind of solution proposed: 'There is fruit picking; you can move.' It hides the complexities and realities of young people, especially in places like Tasmania, where it is incredibly tough and the risk of poverty and disadvantage is quite high.

Senator BILYK: Mr Churchill, I know that in 2013 you did some research with Professor Eccleston and someone else whose name escapes me at the moment. I know that that research was into the cost-of-living pressures in Tasmania. I am just wondering if you have looked at doing anything further based on the impact of the 2014 budget and what additional costs that might have, and if you can just tell the committee quite quickly about that research?

Mr Churchill **:** We have not, due to time constraints, expanded the research, but it is certainly of interest to both Professor Eccleston and me to expand it and look at these issues on a national scale. That is certainly a plan for next year. In terms of the research and the findings, we have found, for cost-of-living pressures—I will refer to my notes—that in 2011 Tasmanian households in the bottom 20 per cent of income distribution spent their entire income on essentials such as heating, electricity, food and clothing. They actually were spending more than they were bringing in.

I think that simple statistic just highlights the kind of extremities that Tasmanians, especially in those lower-income groups, are facing. We also found similar, but not as strong, effects on the middle-income quartiles. They also experienced significant cost-of-living pressures. Interestingly, the higher-income quartile groups had not only their discretionary spending increased, but their income increased over a similar period of analysis. We can see just in Tasmania, with four income quartiles, that the bottom two were certainly experiencing greater disadvantage over a short period of time. We looked between 2005 and 2011 and found that the gap between the poorest and richest households was growing in terms of their ability to afford essential costs. Those in the high-income groups were able to afford more.

CHAIR: Senator Reynolds, I can see you engaging there. Did you want to ask a question?

Senator REYNOLDS: I did. Thank you all for your testimony today; it has been very interesting to hear your perspectives on what is happening here in Tasmania. Mr Churchill, I just wanted to pick up a point you just made that intrigued me somewhat—that people who have a university education should not be expected to do any other work if it is available. That actually quite intrigued me. I just wanted to clarify. What do you think? Should people only be doing what they have received their education for and knock back any other form of paid employment?

Mr Churchill **:** I certainly think that it is a reasonable expectation that you do the job that you have been trained for. I do not think that is unreasonable.

Senator Bilyk interjecting—

Mr Churchill **:** I think the Senator's interjections are quite right: I do not think it is inappropriate. I think it is about a return on investment. I have a $30,000 HECS debt and I would hope that after my university training is complete, and I submit my doctorate, it is reasonable that I will find employment and will be able to pay that off within a reasonable time frame that will not put me at risk of disadvantage. Some of the changes to the higher education scheme in terms of student loans certainly suggest that that might put students at risk. I have seen a lot of figures being bandied around. I do not know the research or the facts well, but certainly increasing the cost of student loans and putting a burden on students after they have finished their degrees, especially in a tight labour market, seems unfair.

Senator REYNOLDS: Have I got this right? If you have studied whatever your degree is in, graduate or postgraduate, it is reasonable for the taxpayer to keep funding welfare because people then choose not to take jobs to pay for them—is that the outcome of what you are saying? Certainly I agree that if we have studied something and worked very hard to study something and the taxpayer has subsidised your education then you would want to find employment in that particular area. But I do not think it is reasonable that you should not back any other opportunity to support yourself in the interim and stay on welfare.

Mr Churchill **:** I am certainly not suggesting that at all, but I am saying that I do not think it is unreasonable for students to expect, after their training in a quality university system such as ours, to find employment that is commensurate to their education and qualifications. Certainly there are a lot of students who study an honours degree and find themselves in fields of employment that have nothing to do with their degree, and I think that is great, but I think it is unreasonable that students should not be able to find, after they have finished their degree, reasonable employment. I do not think fruit picking is a viable alternative for someone who has been studying at university for three years and accruing significant student loan debt.

Senator BILYK: It is not a long-term option for everyone surely.

Dr Blacklow **:** [Inaudible] I have no problem. I think people should just take whatever they can get.

Senator BILYK: Yes, but it is not long-term employment, is it.

Dr Blacklow **:** My kids will not go to university because we will not be able to afford it, but I imagine that I would be happy for my kids to pick fruit. I would hope that they could do better for a career, but I would not mind if they did it every now and again. I think the more important issue here is that if that job was going to be filled by someone else, it is a zero sum game who fills it—unless, I suppose, if it is someone from outside of Australia. So there could be an argument that maybe we could substitute from the backpackers, but then again they seem to be very good at it and want to do it. I remember being in the situation where I had a PhD and was unemployed and I was wondering, 'Should I take this job'. I almost felt a bit immoral taking that job off someone who could not get another job. I could get the fruit picking job, but the person I am competing with would not be able to get a government job that I might be able to get. And so by me taking that job the other person has now got no chance, whereas at least if I aim a little bit higher they still have a chance of getting their job down the bottom.

Senator REYNOLDS: So listening to your evidence earlier this morning, there is no question, from what you are saying, that there is a link between welfare dependency and poverty and lower socioeconomic status and all of the outcomes that go with that. Clearly, and I think that what you are saying reinforces this, the way to actually break the cycle and to actually increase it is employment. So the real question here in Tasmania is: so that Mr Churchill and so that people do not have to face taking jobs that they might think demeaning or not adequate for their thing, how do you create the jobs for people who do graduate? It is about creating jobs here in Tasmania so that they can practice and work in the areas that they are qualified in.

Prof. Habibis **:** In a way that takes you back to the question of the taxation system and the capacity of the state—and the private sector, but especially the state—to invest in the economy. Part of the reason why we have these more regressive measures of taxation is the government's taxation base is shrinking relative to the demand.

Senator REYNOLDS: Are you talking about the state government?

Prof. Habibis **:** I guess I am talking about the federal government and how that then translates to the states. In addressing that, the attention is always on the poor and restricting the benefits to the poor. It is not on the people who are benefiting from the economic growth. Research by Maggie Walter as part of a recent publication that we have just done—Maggie Walter and myself —called *Social Inequality in Australia* shows that when you look at where the nation's wealth has gone, it has gone overwhelmingly to the rich. The long-term trend in Australia is that the richest 10 per cent of Australians gained almost 50 per cent of the growth in income over the last three decades.

OECD figures also indicate that, between 1980 and 2008, 22 per cent of all growth in household income in Australia went to the richest one per cent. Yet, when we try to introduce a mining tax that takes some of that wealth back so that it can have redistributive effects and lift the boats that are not being floated as a result of the growth in the economy, it is politically unacceptable.

Senator REYNOLDS: I think if I engage in this discussion about revenue distribution, my colleagues here might get a bit grumpy with me.

Senator BILYK: No!

Senator REYNOLDS: So I will not enter that discussion.

Senator BILYK: I think it is a discussion we need to have.

CHAIR: It is important.

Senator REYNOLDS: What I was going to say is that you might not be aware that there is a new white paper process on the Federation and one on taxation, and some of the things you are talking about would, I think, be a very good thing for a submission—because it is not just government; any community organisation can put submissions in. One of the things they are looking at is to change the tax regime in Australia so that states can compete.

Prof. Habibis **:** But that is putting it onto the states, rather than the federal government.

Senator REYNOLDS: I just thought I would mention that because what you were talking about does sort of touch on that. But I will come back to my initial question. In Tasmania, where are the future jobs going to come from to deal with the situation that you were talking about?

Prof. Jacobs **:** Most people abroad would say that Australia is fantastic in things like higher education. They would say that Australia has an international reputation in that field, and students from across the globe would like to study in Australia. The other thing Australia is known very successfully for is its public institutions—I am thinking particularly of the ABC—and various forms of government are generally highly regarded.

Senator REYNOLDS: I guess my question is: how do you create these jobs in Tasmania?

Prof. Jacobs **:** The areas which could attract people here are actually not getting the necessary funding to maintain their reputation abroad. The University of Tasmania is a major employer in this state. But the reforms going through the Senate will seriously jeopardise the budget of the University of Tasmania and it will become less attractive internationally for students to come here.

Senator REYNOLDS: Just out of interest, where does the University of Tasmania sit on the international rankings?

Prof. Jacobs **:** We are in the top two per cent.

Senator REYNOLDS: In the top 200?

Senator BILYK: In the top two per cent.

Prof. Jacobs **:** The important point I am making is that the institutions which have been very successful have been the agencies in the areas of employment and are being denied subsidies and funds. What I am very, very worried about is that the way the resource allocation is happening in Australia at the moment is actually trashing the brands which have been so successful for Australia. I am particularly thinking of the university institutions. If we go down the road of making major investment cuts to universities, I think we are in danger of losing our competitive advantage.

Senator CAROL BROWN: The University of Tasmania, which is held in high regard in the world in terms of research, is particularly vulnerable. We are a regional university and we know we are particularly vulnerable. There are $35 million of cuts annually that the university will have to grapple with. Cuts to research are something that will damage our brand at home and abroad. We are right up there with the very best universities in Australia. We are just outside the top eight.

Dr Blacklow **:** Going back to the question on jobs, we should not be trying to pick industries. As economists we hate picking winners because we do not want the government to interfere in subsidising industries—just leave it alone. The main reason is the same as all over Australia: demand is deficient at the moment because of low confidence. We have not had any productivity gains for a long time.

Also, there is a consequence of the concentration of money into the higher end of the income distribution. In one way you can think of it as a trade-off: give money to the poor and the economy will grow faster now; give money to the rich and they will invest for the future and the economy should grow more in the future. At the moment we have money shifting to the upper end of the income distribution, which means spending is not encouraging at the moment. That is why it is down to about 80 per cent whereas it used to be, unsustainably, close to 100 per cent, which is not good either.

A lot of the reason relates to the standard things that would create jobs anywhere else, such as investment of money. Confidence is important. Also, I suppose, you need capital to get the growth. Tassie suffers a little bit less with lower levels of human capital at the moment. We can address that through education. Again, it is about attracting investment capital and removing market failures.

Prof. Jacobs **:** Historically, if you look at the period when inequality was in decline, it was the period between 1945 and the mid-1970s. That was a time when the inequality between rich and poor in Australia actually narrowed quite significantly, and that was an era of high wages. One of the big problems in Tassie is we have such a low-wage economy. There is just not enough aggregate demand, not enough people going into shops and buying services. It becomes a self-fulfilling prophecy of decline. The reason why low wages are such a problem in Australia, and in Tasmania particularly, is that there has been such downward pressure by employers to suppress wage demands. In a way, the crucial question in addressing inequality is addressing low wages.

The other important point I would make about the aggregate demand in the economy is that it is so serious. All governments can do if wages are suppressed is encourage people to take out private debt. That is the only way you can stimulate demand. If you look at what happened in the 1980s, 1990s and up till the global financial crisis, governments were in a very big quandary. They knew that consumer demand for goods and services was going down because wage levels and wage demands were going down, so credit cards were encouraged. Private debt was the way in which we got through the 1990s and early 2000s, and that ended up in the global financial crisis.

So the solution is not suppressing wages—it is just not. It is going to lead to more problems down the line, and that is what we have seen in Tasmania. We have been very successful as governments in stopping trade unions increasing their demands for higher levels of wages. That might look good year by year, but long term it is a disaster for the Australian economy. Compare Australia's wealth and how that money has been spent with what has happened in Norway. Norway had been very rich through oil resources and it has a very, very different social outcome to what has happened here. Ross Garnaut, the economist, has written a very interesting book making comparisons between how Norway managed its wealth and how Australia has managed its wealth. It is probably worth looking at, if you have the chance.

Senator REYNOLDS: Yesterday and today we have had people talking about income inequality increasing. The statistics that we as a committee have been given do not actually support that. We have three different measures: the Gini, the top 10 per cent versus bottom 10 per cent and the relative income poverty indices. The information we have is only up to 2012, but all three indices that we have been provided definitely did show that between 2007 and 2010 there was a spike. The gap marginally increased during the global financial crisis, but all three indices show that the gap then narrowed again by 2012 and that in fact it was not greater than the OECD average. Also, we have been provided with information that real household incomes in Australia have more than doubled the OECD average over the last 20 years in all of—

Dr Blacklow **:** That is not correct.

Senator REYNOLDS: I am saying that nationwide the bottom decile as well as the top decile increased in real terms by 3.6 per cent per annum, on average, over and above inflation. The data from the 2014 OECD report that a lot of people seem to have been quoting—I am not necessarily saying you have quoted that—is true to 2010, which is when we were coming out of the global financial crisis. Could you provide us with the information you have used as the basis of your assertions that the gap is growing?

Dr Blacklow **:** If you look at the chart from the 1970s—

Senator REYNOLDS: Which chart?

Dr Blacklow **:** Gini is not a very good statistic to look at because it is really just sensitive to the middle distribution and does not look at the tails. So you should look at the Atkinson index.

Senator REYNOLDS: It has been very mercurial to try and pin down which charts and which figures people are quoting from.

Dr Blacklow **:** Only if you use the Gini. It barely matters which statistic you look at. If you look at the seven years you can say, 'The GFC has done that.' The GFC has helped to reduce inequality because a lot of wealthy people, with lots of money in shares, lost a lot of money. I can show you a chart. It is only like a little blip in the whole big trend that we are heading on.

Senator REYNOLDS: Which charts? People are referring to charts but not being specific about things that I can just download and have look at.

Dr Blacklow **:** My research finished in 2003. Andrew Leigh has a big series going using taxation data that goes back—

Senator REYNOLDS: Could you perhaps take that on notice because nobody has been able to find anything beyond 2012 so far.

Dr Blacklow **:** Because data is not out for 2012 onwards yet.

Senator REYNOLDS: That is the whole thing. In 2012 it had started to decrease again.

Dr Blacklow **:** Yes, but it is almost statistically insignificant compared to the general theme.

Senator REYNOLDS: Perhaps they could take it on notice and just provide some more specific information.

CHAIR: We will also provide some of the background information that we have been provided with so you can look at that. But if you could provide any other information—because, despite the up and down, the other information we have been provided with shows that inequality has increased over the last three decades and there has been some—

Dr Blacklow **:** There is no dataset match that you can use past—I am using the Household Expenditure Survey from 2009-10. We have got a census for 2011-12. After 2011-12 we do not have any other data, so we cannot.

Prof. Habibis **:** But I think it is a question in itself that we need this data. Why isn't this data being collected? The data that Maggie Walter used in our joint authored book, which I referred to earlier, is from 2010. She did that analysis very recently, in the last six months. We do not have this data. There is a real need to establish a dataset that looks at the wealth distribution. That is one of the biggest gaps in our knowledge. It is a really essential piece of knowledge—

Dr Blacklow **:** It was included in the Household Expenditure Survey in the last decade or so.

Prof. Habibis **:** Can I just give you a little bit of more recent data. Unfortunately, it is not comparative data, so it is not showing trends. It is just showing that, in data from the 2012 ABS household wealth and income distribution survey, nationally the lowest quintile household income was $393 per week. That is a household: $393 per week. In the top quintile it was $4,297. That is the fundamental question. Quite apart from growth in income, it is that massive disparity that also needs to be on the table for people to ask questions about: is that an acceptable level of income difference that we should be accepting as Australians today?

CHAIR: We will provide some background information on notice. If you could have a look at it, that would be really appreciated. If you could provide the information that you have just been quoting, that would be a really useful reference.

Senator MOORE: I am going to ask them what I am asking everybody. I just want to get that on the record because we are trying to do a comparison across the witnesses. My question is: why now? Why is it that a number of people have talked about the fact that this conversation has not been had widely in Australia? I think there have been little elements of it, but there seems to be a focus at the moment on this issue of inequality of distribution of income. I am wondering: why now, and what can we do about it?

Prof. Jacobs **:** I think it has become apparent to many people doing research that there are huge dysfunctional aspects of Australian society. One can look at any particular area. One can look at mental health. One can look at obesity. One can look at housing poverty. And it is apparent that many of the things which we all value in the Australian society are now under threat. If you talk to anyone in the street—as I know you all do—people are very, very uncertain about their future. That kind of confidence which I think was probably around 10, 15 or 20 years ago about the future being a better society and something which we could work towards—people are now beginning to think, 'Well, is this future going to be better?' I think people are now beginning to ask the right questions and saying, 'What can we do as a government to address these things?'

For a long, long time we have been too fixated on trying to blame individuals for the failures. We have said that obesity is all because people eat too much and that housing poverty is because people do not work hard enough to get a job and get a mortgage. But now what is happening is that people are looking at some of the systemic issues which need to be addressed and which have literally been elephants in the room. As Daphne, my colleague, and Paul and Brendan have said, one of the big issues is taxation. Who is benefiting from what is happening at the moment? Who is losing?

And if you look at the way Australian politics is organised, there are a lot of people who are benefiting enormously from the status quo. And they have very clever arguments about how the status quo has to be justified. So people make wage demands and say, 'We want higher wages.' They are told that that is going to make you uncompetitive: 'You cannot possibly have high wages because if you do that you are going to be priced out of a job.' That narrative has been imposed and very successfully absorbed.

Senator MOORE: In this building.

Prof. Jacobs **:** In this building and all sorts of places. And we have to challenge those things.

So I think those debates are really welcome and I think it is beginning to change, but there will be huge resistance.

You are going to have a lot of counterarguments. People will say to you, 'You cannot possibly have high wages. High wages are something which, if we go down that road, are going to lead to economic disaster.' Those narratives have to be attacked. They are furphies. They are distortions. If you look at the very successful nations across the globe, they are countries where there is much more social equality: Denmark, Norway, Sweden. Let's go and think about the countries which have huge social problems, where there is poverty, squalor and high rates of crime. They are the societies where countries are most unequal, and I am thinking of places like in South America, Africa and parts of Asia, where there is huge economic turbulence.

So really, we have to think that if we want a society which we all love and cherish we really have to move into a position where we actually address the root causes of this problem, and that is inequality. So it is absolutely vital that we address inequality. And the way we do that is by having a high-wage economy. And we can only do that by encouraging a major rethink in the way we think about economics. With no disrespect to classical economists, I think that for too long we have followed this mantra that suppressing wages and low-wage economies are the route through job unemployment. And I just do not think they are.

Senator BILYK: We are a low-redistribution economy too when it comes to taxes and things, which is an issue.

Dr Blacklow **:** I just like to see wagons fairly bargained out as between two equal parties. I am not always that keen on—well, I think the minimum wage is sometimes too low, but what I think you can do there to address that is through the taxation system. We could actually abolish the minimum wage if we just fixed up the tax system and said, 'Right: tax free threshold to $40,000 or $30,000,' and just said 'Right: we'll abolish the minimum wage.' And maybe it will be that essentially the government—

Senator CAROL BROWN: ACOSS, in their submission, argues about the progressive impact of taxes in terms of income. But then they talk about the regressive impact of other taxes—consumption and business inputs. So having a $40,000 tax-free threshold, when you put that against the regressive part of our tax system—

Dr Blacklow **:** It will address a lot, because a lot of the regressive part is actually down the low end when you are losing benefits and also being taxed. I am sure you may have seen some of the effective marginal tax rates. I think there are some little spots where if you are around the nose of 38 then you are actually paying 120 per cent rate tax. It is if you can shift that up so that all that interplay between those benefits is not also being impacted by the tax system.

The better way to do it—it sounds a bit funny, although this is the way to stop all that clawing back, and it will also actually stop the stigma—is that you need to actually give the payment to everybody. It does not matter if you are unemployed or employed, everyone gets this living allowance. Just take it back through the tax system so that for someone like me, I am still actually not getting anything from the government. I should be contributing to the government, but everyone gets this living allowance—the unemployed, so that they can live, survive and hunt for the jobs, and because we all get it there is no stigma. And there is also no problem with all the clawbacks because you just have the one tax system.

CHAIR: This was raised yesterday. Does it happen anywhere else?

Dr Blacklow **:** It is a really hard problem to solve. Richard Blundell in the UK does a lot of work on it. This seems to me to be about the only solution, if you can do it. Just cut it all out; stop clawing it back. So we will just give it back to everyone; we will not actually say we are going to take it back off them—we will take it back through the tax system, so we will! Unfortunately, it can also be that if people realise what is going on that will actually defeat it all. But most consumers will not actually pick up that effectively they are still getting marginally taxed. It is about the only way to stop all this clawback and mucking up of all the benefits just to get the threshold up high. Of course, this can be quite expensive, so you need to make the tax system quite progressive to get the money back. But, then again, you are handing the money back to everyone.

Senator BILYK: Isn't there an easier way to help relieve some of the variance, by just redistributing how people pay their taxes now and where it goes?

Dr Blacklow **:** It would have to be simpler if you just rolled all benefits into one benefit system, adjusted for the number of kids you have got and for whether you are working or not, rather than having all these bits, some of which are clawing back at different rates.

My own life situation changed when I separated from my wife and I started to get family tax benefits. I actually worked out—because I am an economist—all the clawbacks and found that it was optimal for me to pull back my work hours, so I did, because I could get more. I did it for about a year. I cut back to about four days and I was hardly losing any money in cutting back from working five days to working four. So the system is working in reverse, in that it encouraged me to work less. I was losing about $20 but I thought, 'I'll have a day at home for $20, thanks!' So there are all those problems, and it is very, very complicated and very hard to work out. So it would be easier if we could just simplify it all.

Senator CAROL BROWN: So essentially, under the current tax system, households across all incomes roughly pay the same amount of tax, when you put it all in?

Prof. Jacobs **:** Proportionally. Am I right in saying that people who are well off generally should pay more, but they actually end up paying less because there are so many subsidies in the current configuration. Also, if you think of housing, the fact that tax is not charged, someone like—

Senator CAROL BROWN: But they pay essentially the same overall rate of tax across incomes. With the system that we are currently under, what I seem to be getting from you is

that it does not matter how much you earn but, proportionally, you are still paying as much as somebody up at the top end.

Dr Blacklow **:** It has gone up a bit, so the poor are only paying a smaller percentage of their income in tax and then the—

Senator CAROL BROWN: I am taking into account the GST and everything. I am not taking just—

Dr Blacklow **:** I think it is still progressive. I hope it is still progressive. I am pretty certain that it still is. You are right; it is not as progressive as it looks from the tax rates.

Prof. Jacobs **:** It depends what you count as tax. If you look at the housing space, a lot of money which should normally be collected as tax is not—for example, capital gains on a home: when someone sells at a profit of, say, $200,000 on their home in Sandy Bay, because it is their principal place of residence all that profit is maintained. There is no requirement on the homeowner to pay tax on that profit. Those opportunities are not available to people in the private rental market or to public housing tenants.

Housing is one of the big vehicles by which wealth is actually redistributed from poor people to rich people. There is a big debate among economists, because they will say that is not a tax. It is called an imputed tax subsidy, but, as I said, it is a major vehicle by which Australia has become much more unequal. The housing system, I think, is fundamental to addressing inequality. If you really want to address inequality, to make our society one that is more progressive and more at ease with itself, then the big subsidies which currently favour wealthy people really have to be looked at, because at the moment we are literally moving money away from poor people into the pockets of wealthy people. And it is all being transferred intergenerationally, so the people who are young now are not going to have those opportunities to own their own home in, say, 10 or 15 years. All the money is locked up with rental investors and owner-occupiers.

Senator REYNOLDS: I have a question for Dr Blacklow. I listened to your comments about the complexity of the system. I presume you have read the McClure interim report on the reform of the welfare system. They make the point that there are 20 income support payments and about 55 supplementary payments.

Dr Blacklow **:** I did notice that it was on the agenda.

Senator REYNOLDS: I am just wondering if you had read it, because their aims are simplifying and making a more sustainable income support system, strengthening individual and family capabilities, engaging more with employers about creating jobs, but also building community capacity, which sound like a lot of the things that we have been talking about today. So if you have not read the McClure report—it is only the interim report—if you had any comments on that, that would also be interesting and whether you support their principles. It sounds very much in line with some of the things you have been talking about today.

Senator CAROL BROWN: In submissions to this inquiry we have received evidence about the effects of inequality in terms of health. I will read a quote and I want you to give me your view on it. The evidence was:

Adverse health effects of inequality have been asserted by many researchers, but no robust evidence in support of this assertion has been produced.

What is your view?

Prof. Habibis **:** It is not my area of specialisation, but I think there are some very clear evidence on the impact of inequality on health. For example, in the Aboriginal and Torres Strait Islander context, there was a recent publication which showed the impact of crowding on health. That is one area you can make a link, and I am sure my colleague, Mr Churchill, has some points to make.

Mr Churchill **:** I think it would be some definite strong evidence that would suggest that inequality would have a significant detrimental effect on health. If we think about unemployment as an example, we know that the longer you are unemployed, the greater the adverse effect on mental health will be. I think that submission is completely wrong—

Senator CAROL BROWN: Statement.

Mr Churchill **:** Statement, sorry. If we just think about inequality as being access to resources or income, cost of living issues and pressures, if you are constantly trying to find a dollar to support yourself or managing your bills, or you are having to go without heating or clothing—all those things are going to have an impact upon your general health and wellbeing, which will then lead on to more significant and serious issues in terms of mental health. I think there is lots of evidence which would refute that, and I am happy to provide that, if you would like.

Dr Blacklow **:** One thing I would like to point out is that when I read some of this, to me a lot of that is not a problem within a quality—that is just a problem with low incomes or poverty, if you like. They are different. Inequality is about the spread. I admit that there might still be some health impacts of inequality. I would probably think about it more in terms of mental health, actually—you want things because you are down here and have got a shitty life and you are looking up everyone else and feeling bad or something like that. But most of those other problems with health are purely related to low income, which of course is related to inequality. Boost the incomes at the lower end and it will reduce inequality. It is not so much a cause of inequality; it comes from the low incomes, which also feeds into the inequality.

Senator CAROL BROWN: Education inequality.

Dr Blacklow **:** That is a good thing to look at, to look at equality of opportunity, too.

Senator MOORE: The WHO sets out internationally the impact of a whole range of issues on health. That also looks at access. It is not just poverty; it is where you live—the point you are were making earlier about the regional and remote impacts. There are a whole range of things. As I said yesterday, the social determinants of health through WHO, I think, links in almost parallel with what we are talking about.

Dr Blacklow **:** It is the remoteness; it is not the inequality of remoteness that is causing difficulties of access.

Senator MOORE: Is inequality between the access to what you can have.

Dr Blacklow **:** It is a different way to look at it. Normally when we are talking about inequality were looking at the spread of things. You can look at inequality by looking at the variance—the standard deviation. That is all inequality is. Sometimes I read things off and I think, 'You are not talking about inequality; you are just talking about low incomes.' Which I think is another problem. They are all related. Don't get me wrong: I totally agree that there are huge impacts on health in having low incomes.

Prof. Habibis **:** Another indicator would be to look at the impact of homelessness on which, which is that it literally jeopardises life. The mortality rate for people who are homeless is much higher. The effect on life expectancy is really extreme. There would be another area to refute the claim. The issue of whether it is poverty or it is inequality is not a matter of semantics, but if you are careful about defining your terms, you are talking about the low end of income inequality for people who may be described as poor, then you can show a very clear link.

Senator CAROL BROWN: Thank you, and thank you, Chair.

CHAIR: Mr Churchill, if we could get that additional information, that would be really helpful. The issue for the inquiry, and it goes to the point you are making, Dr Blacklow, around whether it is related to low income and poverty or inequality. But we are looking here specifically at income inequality. So it seems to me that the points that are being made are relevant. You were talking before around the difference in wages. It comes back to the point that Professor Jacobs was making in terms of low wages.

Can we go back to the point you made at the beginning, which is this argument that we have to have low wages in order to be competitive, and the argument that we are competing with Asian economies where their prosperity is rising, but they are doing that on the back of comparatively lower wages than ours. How do we deal with that?

Prof. Jacobs **:** My argument would be that we that we have to have strong internal demand in Australia to buy our goods and services. But if you go pursuing a very low wage economy, you are basically suppressing internal demand. A country like Australia which has a lot of minerals resources could have better outcomes if there were higher wage settlements. That would act to stimulate the economy domestically, because then people would have more disposable income to actually spend in shops and consumer activities than they currently do. We would be somehow protected, I think, by our ability to export minerals and resources. We also have fantastic institutions here, as I said, like universities, which do actually attract huge amounts of foreign investment in terms of students turning up to our shores and living in places like Hobart, Sydney and Melbourne.

So I think there are ways we can actually reconfigure our economy to make it a much more successful one. It also requires a redistribution within Australia. Australia is a very, very wealthy country. I think it is only second or third in terms of its overall wealth per capita, but the resources are not actually being distributed across. As Daphne, my colleague, has said, it has actually caught up or pocketed by very, very wealthy groupings in Australian society. They have been hugely successful, as I said, in creating a narrative, story-line, which says that any change to the status quo is going to destroy our economy. You hear that all the time. We have got to challenge it. So the answer is that we actually have a society where we recognise that we are wealthy and that wealth should be redistributed. Low wages and just pushing for low wages on the argument that somehow we have got to compete with Asia and China is going to lead us into some kind of promised land of prosperity is a false one. It just has not worked. Countries where there are higher wages settlements are hugely popular. They have better health outcomes, they have better housing, they have better education. The ones that have gone down this road of trying to chase global competitiveness through suppressing wages end up in a very, very problematic spaces. I am thinking here of parts of South America and also now the United States, which is going through major transformation, as we all know. That is really how I see the future. These are big, big debates, and the narrative which are so long been pushed by so few people we need to challenge it at every level. I think it is beginning to happen. As I said, now people are actually waking up to what has been taking place. I am actually quite confident that we are going to see major changes taking place in Australian society.

Dr Blacklow **:** With the wages, higher wages are possible as long as the productivity is possible. That is why we pay more in Australia, because our productivity has a higher value. We can have wages that are 20 times a poor country because we produce 20 times as much with our work. So it is possible. I think is quite interesting what Keith is talking about. You need a macroeconomist to work on a model and look at the implications of that. I cannot comment. It is not my area and it would take a fair bit of work to look at it. It is certainly true that wages, especially down the lower end of the income distribution, would churn around in the economy more and create growth. Whether that growth is sufficient to outweigh, I do not know. It is certainly an interesting area of research. It was sort of what I tried to do initially in my PhD, before I started on inequality.

CHAIR: I want to ask one more question, and it may lead to others. How redistributive are we? I was at a discussion on income inequality at one of the universities in Perth last week where it was put that our redistribution is probably better than some other countries but the danger is that we have gone backwards and are going further backwards. In the forties and seventies, which you were talking about, we were redistributing more, and we have gone

backwards and perhaps some policies at the moment are taking us backwards as well. Is that correct?

Prof. Jacobs **:** That is right. We are probably middle ranked in terms of OECD countries in terms of our redistribution. We are not at the top end and we are not at the very, very bottom. There are other countries like the United States which actually have a far worse redistribution than we do. But, as you quite rightly pointed out, we are slipping back, and the politics that are now being pursued I think are actually regressive and will take us back into a darker period rather than one that is going to be a progressive one.

Dr Blacklow **:** It goes back to Senator Moore's question about why it is happening now. I was sort of wondering why because when I did my PhD no-one seemed to care about inequality, so we all shelved it. But it is those changes and, I suppose, the public policy changes that are happening. It is also that, if you get someone's concentration of wealth up in the higher end, it appears that the political processes are getting captured by that wealth. With all the ICAC hearings you are seeing that money is affecting the political process, and I wonder whether that is starting to get people to think, 'Hang on, this inequality is now even affecting our political process, so we may not be able to fix this.' Maybe 100 years into the future the Senate would never have an inquiry into inequality because, no offence, somehow it is all being fixed up with money or something else. That is my concern now as I realise it is a spiral that can easily get out of control.

Senator BILYK: At yesterday's inquiry there were a couple of witnesses who were calling for an official national conversation around inequality. I am just wondering if you have got any comments with regard to that.

Prof. Jacobs **:** What I think is really tragic—and I have been in Australia for 12 years and I think this is so sad—is that tax is a social glue that binds us together. That stops people from being homeless on the street and it stops people from dying in hospitals. Yet 'tax' is seen as a dirty word—we do not want to pay tax, and it is encouraged everywhere, but without tax we are done for. So, in a way, a society that actually recognises the social benefits of tax is going to be a better one. I personally would be happy to pay more tax. I am one of these people who votes for the parties that want to increase tax. We all talk about things like communities—

Senator BILYK: I think politicians are scared that people will not think like that, to be honest.

Prof. Jacobs **:** Unfortunately, what is happening is that 'tax' is being taught to be a dirty word and somehow tax is seen as robbery, and it is not. It is actually for the survival of us as a society. Without tax it is basically dog eats dog.

Senator BILYK: And some of those countries that have been mentioned in conversation earlier this morning pay much higher taxes, but they also have better overall outcomes.

Prof. Habibis **:** I would absolutely welcome a national conversation on inequality. I think it is not a question of it being long overdue; it has never happened, and we really need it. It has not happened for many generations—

Senator MOORE: On this issue of having a discussion about inequality, people who do not agree with that say that it could be translated into a class war, a negative attack that would then be a culture of envy.

Dr Blacklow **:** We have been, in a way, in a cold class war for the last 20 years by stealth with all these public policies that have been hitting the poor over and over and handing to the rich. In fact, that is the screen that is used to stop the argument. I agree—

Prof. Habibis **:** But I think one of the other things is that the survey data—I do not have it precisely in my head—shows that people are willing to pay more tax if it is tied to better services like health and education. That is not something that is well known. It is how the conversation or how the policy changes are presented to the community. Of course, the media plays an enormous role in the way the policies are consumed. The role of the media plays a critical part in the national conversation, which can be detrimental. That really is a critical issue but very hard to grapple with.

Dr Blacklow **:** I think some might sell or promote the benefits of what the government—I suppose the government is promoting the services it provides. I remember having a discussion with the father of a student of mine who did not believe he should pay any tax. I asked, 'Didn't your son go through public schooling?' He said, 'Oh yeah, but I haven't—' And I said, 'Well, that's pretty well 20 grand year,' and told him that he owed the government close to a million dollars in education, yet he did not think he needed to pay tax. I was thinking, 'The government has already given you all this stuff and you're not willing to contribute anything.' You will get the argument and some of it is going to come down to people's compassion levels. Some people think they should not help out people who are struggling, unfortunately—

Prof. Habibis **:** That is right.

Dr Blacklow **:** and it is going to be very hard to convince people like that, because that is just their nature.

CHAIR: We need to wrap up, so do you have one final comment, Professor?

Prof. Jacobs **:** There is plenty of tax which could be collected and is not, and that is really what I would like to see. Everyone actually has to pay their fair share. It is not a question of class war and trying to penalise one social grouping over and above. It is just creating a level playing field so no-one is advantaged from being rich or poor. The poor do not get massive subsidies and the rich do not. There is a much more level playing field. There is a progressive system, which means that people in Australia are not penalised on the basis of their birth or where they live. If we could create a society like that, the rich would benefit. They would not get mugged and they would not have to pay huge insurance bills, create gated communities and have high security.

So it is in no-one's interest to have to a regressive, unequal society. It might appear that way in the short term, but in the long term I would say that the societies which have gone down that route are creating grave problems for themselves.

Senator REYNOLDS: My take on Senator Moore's question is that the issues that you have discussed today are very much philosophical about how to distribute current wealth; not about creating new wealth. How you do that income split is at the heart of the political and philosophical discussion.

Prof. Habibis **:** Except that the two are linked. It is about the capacity building within the community and making sure we have socially inclusive communities so that some sections of the population are not marginalised and then do not have the capacity to contribute.

Senator REYNOLDS: The solutions and the options are very much philosophical and ideological discussions.

Prof. Habibis **:** Yes.

Dr Blacklow **:** Let's follow that argument because it is very important. If you invested masses of resources in public education, you would have a very highly educated workforce. That educated workforce would generate wealth through their skills—

Senator REYNOLDS: That is your proposition. I am saying that there are alternative points of view out in the community. Anyway, just picking up Senator Moore's point: you have very effectively put forward your hypothesis, but there are other points of view out there. Dr Blacklow, your point stuck with me. You were saying, as I understand it, that there is a difference between inequality and poverty and that the inequality is not necessarily a generator of poverty. That again is a philosophical point of view. We might all disagree around the table on that.

Prof. Jacobs **:** There is absolute and relative poverty. Those are two different things. You are right in terms of—

Dr Blacklow **:** It does have a relationship. As I said, inequality affects growth rates, and therefore it affects—

Senator REYNOLDS: I think we need to be careful not to conflate the issues of inequality, for which there are many different measures, and lower socioeconomic outcomes and how to address those. We have to be careful as a committee not to conflate the two.

Senator MOORE: On that, the three things that I asked the professor yesterday to follow up were the graphs on pages 8, 72 and 73 of our briefing papers. I would be very keen for those graphs to be provided to this group to see if they would care to have—

CHAIR: That is the background information on page 8.

Senator MOORE: Those are the ones I picked: page 8, 72 and 73.

CHAIR: We have got the information we were talking about earlier. We would love your feedback on some of the data, the accuracy of the data and how we are measuring poverty and inequality.

Dr Blacklow **:** The Gini might show you the movements in inequality. It is designed that way.

CHAIR: I am aware of timing and the fact that people do have to eat before we—

Dr Blacklow **:** What I should have said was that the formula is constructed that way.

Senator MOORE: If we can hear back from you, that would be great, because we have not got that. It is not in our briefing.

Dr Blacklow **:** There is this range of indexes which I really like from the economist Atkinson. They have a little parameter that you can change depending on how much you care about inequality—so you can put it at zero if you do not care about inequality—and all it does basically is measure the whole aggregate level of incomes. It adds it all up and goes, 'Oh good, ours has gone up or down.' Then you can change this parameter up depending on how much you care about inequality. If you change the little parameter up to infinity, you get a Rawlsian social welfare function, where you only care about the poorest person in society. So you have got your spectrum between not caring at all and only caring about the poorest person. Again, as an economist, I totally agree with Senator Reynolds that I could teach my class—I do not teach my class where to split the cake. We just talk about the consequences of it—

CHAIR: The various ways you can split the cake.

Dr Blacklow **:** Yes, but we do not ever—

Senator REYNOLDS: No-one has a monopoly on compassion. What I might see as a compassionate solution might not be what you see as a compassionate solution.

Prof. Jacobs **:** Absolutely. Yes, it is the same with ethics. True.

CHAIR: I am going to have to draw the line because we could keep talking about this until way into the night—certainly I could. Thank you very much for your time and for the homework that you are going to be doing for us. Could we have that back in about three weeks. We will provide the information that we were talking about. Any comments on that would be really appreciated. Thank you very much for your time; it is much appreciated.

Committee adjourned at 12:21

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